

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

July 17, 2006

8:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 8:30 a.m., Monday, July 17, 2006, in the TierOne Community Meeting Room at 1221 N Street, Lincoln, Nebraska.

The Board members were notified of this meeting by letter dated July 7, 2006. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday 10, 2006. Mr. Peters chaired the meeting and Ms. Linder recorded the minutes.

MEMBERS PRESENT:

CHARLES PETERS, CHAIR
DENIS BLANK, VICE-CHAIR
ROGER REA
DALE KAHLA
MARK SHEPARD
GLENN ELWELL
JUDGE GLENN CAMERER
RICHARD WASSINGER
DAVE BOMBERGER, EX-OFFICIO

NONMEMBERS PRESENT:

ANNA SULLIVAN
Director
JASON HAYES
Legislative Retirement Counsel
GARY BUSH
DAS - State Budget Administrator's Office
CINDY JANSSEN
State Auditor's Office
MARY JOCHIM
Sterling Financial Advisors
KEVIN CUETO
NITC Consultant
JOE SCHAEFER
Legal Counsel
JAN FOX
Training Supervisor
RANDY GERKE
Accounting and Finance Manager

KATHY TENOPIR
Legislative Fiscal Office
ANDRÉ MICK
Legislative Performance Audit Analyst
DON ARP JR
Legislative Performance Audit Analyst
CHAD MELCHER
Union Bank & Trust
MIKE KULAS
Union Bank & Trust
HERB SCHIMEK
Nebraska State Education Assoc.
TERESA ZULAUF
Internal Auditor
JANE BOND
Retirement Plan Supervisor
SHEILA LINDER
Administrative Assistant

Agenda Items 1 and 2 - Meeting Called to Order: Chairperson Peters called the July 17, 2006, Board Meeting to order at 8:33 a.m. Mr. Peters welcomed Mr. Bomberger to the Board, as the new State Investment Officer.

Present at roll call: C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, and D. Bomberger. Absent: None.

Agenda Item 3 - Approval of Minutes: Mr. Rea moved that the minutes of the June 12, 2006, Board Meeting be approved. Motion was seconded by Judge Camerer. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, and C. Peters. Against: None. Motion carried.

Agenda Item 4 - Approval of Budget Status Report & June Retirement Report: Mr. Blank moved to approve the budget status report and the June Retirement Report. Motion was seconded by Mr. Kahla. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, and D. Blank. Against: None. Motion carried.

Agenda Item 5 – Recognition of Ameritas / Resolution: Mr. Blank stated that the Agency and PERB had a long and faithful tenure with Ameritas as our Recordkeeper. The Board has put together a Recognition Resolution for recognition of the firm and their staff. The Resolution thanked the employees of Ameritas for all of the work they have done since 1964 and made special recognition for Ben Mattern. The Resolution will be hand-delivered to Ameritas. Mr. Blank moved for acceptance of the Resolution for Ameritas. Mr. Rea seconded the motion. Members voted as follows: For: D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, D. Blank, and R. Rea. Against: None. Motion carried.

Agenda Item 6 - NITC Analysis of PIONEER: Ms. Sullivan stated there is a need for a change in program language because support for Forte will be ending. Our vendor suggested we migrate from Forte to Java and we wanted a third party review of that. We signed an agreement to have NITC do an analysis for us.

Kevin Cueto, a consultant for the office of CIO, distributed a draft of his report, with the final to be distributed to NPERS when complete. He stated the problem is the system was written with Forte. Sun Microsystems is no longer using the language. The language is no longer supported and is no longer updated. Therefore it would be unstable and will cause the agency to lose productivity. Maintenance costs will rise. We need to transition from Forte to another system by 2009 with 2010 as a drop-deadline. It will take two to three years to transition so the commencement date should be no later than mid-2007.

Mr. Cueto stated the transition could be done with line by line conversion. The second option would be to rewrite it. We would not use any existing code. It should be done in functional components, a gradual migration plan. There will be ongoing support and Mr. Cueto suggested having our staff involved in day to day maintenance of the system.

Mr. Cueto stated he believes the rewrite option is best. He also stated it is key to utilize the existing data base. We would not need to worry about data conversion (usually one of the most expensive parts of a project). We would be able to do a phased transition.

His general recommendation is to build the application as a web-based application, utilizing one of the two prevailing platforms; utilize as much of the existing database as possible; simplify the architecture; limit enhancements; and get our IT staff involved in development.

Sgt Elwell asked if going to a web-based platform will add a greater risk to security.

Mr. Cueto stated it can be architected identical to the way it is now. It can be left on the internal network, with no greater risk. If it is put on the internet, there is a greater risk.

Mr. Rea asked if he had an idea on the cost for this project. Mr. Cueto stated he did not, but a "shoot from the hip" estimate would be \$5 to 6 million (ballpark figure) to rewrite it and it would probably take three to six years.

The more changes there are the higher the maintenance costs will be. Mr. Rea asked if the final report would have a recommendation for either ".net" or "Java" as the preferable language. Mr. Cueto stated his performance preference is Java, but that is only his personnel preference and he has had more experience with it.

The final report will be submitted within the next month or so.

Agenda Item 7 - Update on Union Bank Record Keeping: Chad Melcher and Mike Kulas of Union Bank & Trust (UBT) were present today to provide an update on the transition on the recordkeeping process. We are transitioning from Ameritas to Union Bank & Trust. The blackout will be lifted today. Today is the first live day so he did not have much data to report on. They will be reporting back to the Board as often as the Board would like.

They converted member data. They have invested the payrolls for State and County agencies that they have received payroll files on. They have a few stray payroll files or checks that will be invested as soon as all necessary information is obtained.

Starting today members will have access to their information via the web. UBT is still learning many of the business processes. They are putting all of the resources they can into the process so our staff have all of the information needed. The number one priority was getting the member data moved over to the UBT recordkeeping platform. The next item was making sure the information that PIONEER needed was being received. The third item was generating reports. The last item was that they wanted to make sure to bring in efficiencies that they could find over time. Now that the data has been converted over, they are putting all of their resources into moving the extract files to number one on their priority list.

Ameritas had 90+ plans that they processed for. UBT took the 90+ plans and put them into eight. They hope this will provide ease and efficiency. Their audit staff is currently doing sampling of member balances.

The Board thanked Mr. Melcher and Mr. Kulas for meeting the deadline. They plan to report back to the Board next month with more information.

Mr. Blank asked about training for plan members (approximately 31,000 members across the plans). There is a tutorial on the web for plan members. A brochure was prepared for all members.

Mr. Shepard moved to receive the report by Kevin Cueto as an interim update to the NITC analysis of PIONEER and receive the report of Union Bank on the recordkeeping transition by Chad Melcher. Mr. Wassinger seconded the motion. Members voted as follows: For: M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, D. Blank, R. Rea, and D. Kahla. Against: None. Motion carried.

Agenda Item 8 - Sterling Financial Contract: Ms. Sullivan stated the contract was bid in 2003 and is due to expire August 31. Ms. Sullivan stated it is not timely to rebid the contract, which contained a renewal option. Ms. Jochim, of Sterling Financial, has provided a proposal with no change in the cost structure for the services Sterling provides. Copies of the proposal were provided to the Board. Part A of the contract is for financial planning services for the State and County plan members. The Part B is monthly on-going service to answer plan member questions on investments available through their 800 number. The proposal is to renew the contract for a three-year period at the current rate of \$4,000 per month for the 800 number services and \$4,000 per seminar for a three-year extension.

A copy of a Contract for Investment Education Video Services was provided to the Board. One of Ms. Jochim's representatives assists us with investment education video services for \$2,200. This is a one-time cost to update the video due to new investment options.

Judge Camerer asked how much the 800 number is utilized. Ms. Jochim stated the volume of calls varies. Factors include the market, the length of the calls, and the degree of difficulty in the questions the members have. There are five to fifteen calls received in an average day. They do keep a tally sheet. Typically there are approximately eight seminars per year.

Mr. Rea moved for approval of the extension of the contract for three years for the pre-retirement planning sessions and approval of the contract for the investment education video services with Sterling Financial. Judge Camerer seconded the motion. Members voted as follows: For: G. Elwell, G. Camerer, R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

The Board took a break at 9:55 a.m. and reconvened at 10:08 a.m.

Agenda Item 9 - Finalize Retreat Topics and Agenda for August Board Retreat: The Retreat Committee developed a list of retreat topics that was provided in the Board packet. They have also prepared an outline for the Retreat on August 20 and 21 in Kearney. The Retreat will start at 10:30 a.m. on Sunday and at 8:00 or 8:30 a.m. on Monday and go until 3:00 or 3:30 on Monday. Judge Camerer reported that he may not be attending. Mr. Shepard will need to leave around noon on Monday. The Actuary will be on the Agenda on Monday. We are expecting to have the final Performance Audit report by that time and

will work on the action plan. Ms. Sullivan reviewed the tentative Agenda and Mr. Rea reviewed the discussion items.

Mr. Rea asked for a timeline on the Interim Studies. Mr. Hayes had provided a list of Interim Studies by their priority. Mr. Hayes stated two hearings have been scheduled, the first hearing will be on Tuesday, November 21, and the second will be held on Monday, December 4. The first hearing will be on Legislative Resolutions 338, 339, 340, and 376. The second hearing will be on LR 341, 342, 343, 356, and 417. Mr. Rea asked if there would be public testimony at these hearings. Mr. Hayes stated there would be.

Ms. Sullivan will prepare a timeline for the Board Retreat and email a draft to the Board.

Mr. Rea moved to accept the report and the retreat topics. Mr. Kahla seconded the motion. Members voted as follows: For: G. Camerer, R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, and G. Elwell. Against: None. Motion carried.

Agenda Item 10 - Budget Update – Biennium 2007-2009: Ms. Sullivan provided a copy of the draft Agency Information Technology Plan and Budget Overview for FY 2006-07. Ms. Sullivan reported there were some personal service savings because the IT Manager position was not filled when the position became vacant last year. There were some vacancy savings due to vacancies in some positions that also include shuffling of staff due to promotions which caused more vacancy savings until all positions were filled. There were some operating savings, data processing expense and conference registration expense partly because of learning that Forte support would be ending and we stopped the training of staff. Under the data processing license fee, which is primarily Covansys, we were able to cut one FTE and lower the contract expense.

The items left over from FY 05-06 will be carried over into FY 06-07 and will get us started to begin the migration process. We restart the year with a new personal services limitation. The savings incurred in FY 05-06 cannot carry over, but will drop down into the operating budget.

Ms. Sullivan stated she is setting the migration from Forte to Java as a priority for this budget year. Judge Camerer asked what kind of bidding process we will need to go through. Ms. Sullivan stated she will need to visit with NITC to see if it would be prudent for us to go through the bidding process, if the advantage that the current vendor has is to such an extent that no other vendor could compete and it would cost us more to use someone from the outside.

Mr. Shepard stated we need to pursue with Covansys if they plan to rewrite as Mr. Cueto had suggested or do a conversion.

Ms. Sullivan continued with a review of the budget overview document. Budget priorities for FY 06-07 are migration to Java; refilling the IT Manager position; the actuarial experience study on School, Judges, and Patrol retirement plans; and staff training for staff to take over maintenance and support of the system, management training, and customer service training.

The budget priorities for FY 2007-09 priorities are a continuation of the migration to Java, refilling the IT Manager position; salary reviews; ongoing staff training; and the new actuarial contract.

The final budget request needs to be to the Governor's office by mid-September. Board members noted the importance of updating the figures regarding the migration to Java. The completed budget will be presented at the Retreat and Ms. Sullivan plans to provide information to the Board for review prior to the retreat.

Ms. Sullivan distributed copies of the previous Budget Narrative and reviewed it briefly. She also provided copies of budget information for Program 515 for FY 06-07, which identifies the current funding for the School, Judges and Patrol retirement plans.

Ms. Sullivan then distributed Mr. Slishinsky's estimation of his five-year projection of contribution rates for the School plan, which means an additional amount will likely be needed for that plan during the 2007-09 years.

Judge Camerer stated we are going to be forced into making an estimate for the budget before we have information on the NITC report. He suggested going with Mr. Cueto's estimate at \$5.5 million because he is doing the analysis on behalf of NITC, a state agency.

Ms. Sullivan thought that the maintenance and support costs would be included in the project and absorbed as part of the migration, which would give us a little bit of cushion. Ms. Sullivan asked that the Budget Committee either meet after the meeting today or by phone. She will also provide packets of information to the Board prior to the Retreat.

Judge Camerer moved to accept the Budget Report from the Director. Mr. Blank seconded the motion. Members voted as follows: For: R. Wassinger, C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, and G. Camerer. Against: None. Motion carried.

Agenda Item 11- Investment Officer's Update: Mr. Bomberger, the new State Investment Officer, provided information regarding his background. He then reported the Investment Council has not met since the PERB Meeting last June.

He reported the broad equity markets through close of business on Friday are effectively unchanged. Equity markets were three to four percent up through the end of June, but the markets are unchanged for the year, down about three percent for the first few weeks of this month. The fixed income investments are unchanged for the year, with positive returns so far in July.

Judge Camerer mentioned there are some managers that are on the NIC's watch list. Mr. Bomberger mentioned that he evaluates the four P's (the people, the process, the portfolio, and then the performance). They will continue with the process regarding the watch list.

Agenda Item 12 - Director's Report: Ms. Sullivan mentioned the State Treasurer's information system being breached in June. Our IT staff immediately contacted them and we

received reassurance from our IT staff that our system was safe because of the type of firewall we have. Subsequent to that we have enhanced our security by coming under the umbrella of the State's firewall.

State, County, and Deferred Comp audits are wrapping up. The exit conference on the Deferred Comp Audit will be held next week and we expect the exit conference for State and County to occur in mid-August. This year we had disclosure of certain type of investments on the financial statements, which was new this year. They held a special meeting with Carol Kontor, some of her staff, and the auditors to help us understand the disclosure requirements for the footnotes on the financial statements that have to do with classifications of certain types of investments. We have relied on DAS Accounting and will be doing more in working with the Investment Council. Once the financial statements for State and County are finalized, they will be sent to the actuary. Mr. Slishinsky will then do his evaluation and it is planned to bring this back at the August meeting for the Board to determine what they want to do with regard to a dividend.

The staff is in the midst of the busy retirement season. Some of them have been working overtime in June and will continue to do so in July to complete the applications in a timely basis. Right now they are focusing on those with a June 1st effective date.

The credit rate to the School, Judges, and Patrol member accounts is 5.26% effective July 1 per new Treasury rates released.

Quarterly statements were mailed out to State, County, and DCP members on July 6th and 7th by Ameritas.

In the Education Services area, there were six employer education meetings recently, with 329 attendees. There are a couple of State and County employer meetings also scheduled regarding LB 366 and the recordkeeper transition. There were 1,391 attendees at the spring School seminars. They are working on a new brochure that will show the money that is being paid to retired plan members per month. Currently \$218,000,000 is being paid out to retirees that live in Nebraska per year. The brochure will also include a breakout of the assets, contributions, and earnings. They plan to have something prepared for the Board to review at the Retreat.

Ms. Sullivan reported Ken Steinmiller, a former Director of the agency, died in June and she attended the funeral.

A copy of the Open Meetings Law is available to the public, along with the Meeting Agenda.

Sgt. Elwell asked if member information is available for staff to take home. The information is stored on the server and nothing is stored on hard drives so a staff person cannot take home member data on a PC.

Mr. Rea moved to accept the Director's report. Mr. Kahla seconded the motion. Members voted as follows: For: C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, and G. Camerer. Against: None. Absent during vote: R. Wassinger. Motion carried.

Agenda Item 13 - Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Agenda Item 14 - Chairperson's Comments: Mr. Peters stated that he hopes to discuss at the Retreat the triangulation between the NIC, the Governor's office, the PERB, and how the actuary "runs around that triangle" so we can discuss the relationship and how we can better understand and work together.

Agenda Item 15 - Future Meetings/Agendas: The next meeting will be the Board Retreat scheduled for Sunday, August 20th and Monday, August 21st, at the Holiday Inn in Kearney, Nebraska. The September meeting is scheduled for September 18th. Mr. Blank is unavailable on the 18th. None of the Board members have a conflict on September 25th. Mr. Blank moved to amend the meeting schedule to change the date of the September meeting to September 25th. Mr. Kahla seconded the motion. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, and C. Peters. Against: None. Motion carried.

The October meeting will be held on the 16th. The joint meeting with the Investment Council is November 20th.

Agenda Item 16 - Conference Attendance Approval: Mr. Wassinger asked for approval to attend a two-day workshop for new trustees in Las Vegas, Nevada, on October 7th and 8th. Mr. Wassinger distributed an estimate on the cost at \$1,960. This workshop is put on by the International Foundation of Employee Benefits organization.

Mr. Rea asked for approval to attend a two-day conference in September in Chicago put on by NCPERS on healthcare costs. Mr. Rea estimated the cost to be \$1,500.

Sgt. Elwell asked for approval to attend the International Foundation Annual Conference October 8th - 11th in Las Vegas. Sgt. Elwell estimated the cost to attend the conference would be approximately \$2,150.

Gary Bush, DAS Budget Analyst, stated he had a question regarding the conference attendance. He was asked to come forward. Mr. Bush stated he was understanding that Mr. Rea was asking to attend a conference on healthcare benefits, but there are no healthcare benefits in any of the plans administered by the Board, and he was asking how that was relevant. Mr. Rea stated it has been discussed numerous times and there is an Interim Study that deals with post retirement improvements and healthcare for retirees. That is why he thought it was relevant. Mr. Peters stated there have been many discussions and being aware of the issues and details may be useful to the Board.

Mr. Blank moved to approve the conference attendance requests for Mr. Wassinger and Sgt. Elwell. There will be time in August to discuss Mr. Rea's request. There are some questions about our role with regard to benefit enhancements. Mr. Kahla seconded the motion. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, and D. Blank. Against: None. Motion carried.

Mr. Rea stated if there are concerns, he would withdraw the request so it does not need to be looked at again.

Agenda Items 17 and 18 - Executive Session: At 12:06 a.m., Judge Camerer moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing the six disability applications of plan members listed in the Agenda for the July 17th Meeting, other legal matters, and the Performance Audit Update and any discussion relevant to the Performance Audit. Mr. Blank seconded the motion. Mr. Peters restated the motion for the record. Members voted as follows: For: D. Kahla, M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, D. Blank, and R. Rea. Against: None. Motion carried.

Mr. Blank left the meeting at 1:01 p.m.

At 1:01 p.m., Judge Camerer moved that the Board exit Executive Session and reconvene in Regular Session. Motion was seconded by Mr. Rea. Members voted as follows: For: M. Shepard, G. Elwell, G. Camerer, R. Wassinger, C. Peters, R. Rea, and D. Kahla. Against: None. Motion carried.

Mr. Kahla moved for approval of the disability applications of Retirement Nos. 406073, 602129, 089409, 053081, 127348, and 107695. Sgt. Elwell seconded the motion. Members voted as follows: For: G. Elwell, G. Camerer, R. Wassinger, C. Peters, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

Adjournment: Judge Camerer moved that the meeting adjourn. Motion was seconded by Sgt. Elwell. Members voted as follows: For: G. Camerer, R. Wassinger, C. Peters, R. Rea, D. Kahla, M. Shepard, and G. Elwell. Against: None. Motion carried.

The meeting adjourned at 1:05 p.m.

Anna J. Sullivan
Director